



County of Los Angeles CHIEF EXECUTIVE OFFICE

713 KENNETH HAHN HALL OF ADMINISTRATION
LOS ANGELES, CALIFORNIA 90012
(213) 974-1101
<http://ceo.lacounty.gov>

WILLIAM T FUJIOKA
Chief Executive Officer

Board of Supervisors
GLORIA MOLINA
First District

YVONNE B. BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

November 15, 2007

To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to read "W. T. Fujioka", is written over the printed name and title.

SACRAMENTO UPDATE

Special Session Hearing on Health Care Reform

On November 14, 2007, ABX1 1 (Nuñez and Perata), the Democrats' revised version of health care reform, passed the Assembly Health Committee by a vote of 12 to 4, and now proceeds to the Assembly Appropriations Committee. More than 60 witnesses, including representatives from the Administration, labor, business, physicians, and public and private hospitals testified during the three hour hearing. While ABX1 2, the Governor's proposal, was not heard, there are now elements of his proposal in the Speaker's bill, such as the hospital provider fee, the individual mandate, a minimum benefit package, and the Healthy Incentives and Reward Program.

In his opening comments, Speaker Nuñez told committee members that they are continuing to make additional progress with the Administration and others, and that he expects to have a deal in place when a full vote of the Assembly occurs on Monday, November 26, 2007.

Republican members expressed opposition to the employer mandate, especially for small businesses. However, a small business association member indicated that they are being hurt by the status quo because they are unable to compete in the insurance marketplace to obtain affordable insurance and would welcome the opportunity to obtain quality affordable health care for their employees. Further, Republicans remain concerned about the

proposed revenue sources and whether they would be sufficient to cover increasing health care costs.

A representative from the County's Health Department testified that the County supports passage of health care reform, but does not yet have a position on ABX1 1, and that we are continuing to work with the Administration and legislative staff to resolve the County's main concerns, which are adequate reimbursement rates, five year exclusivity for the Local Coverage Option (LCO), and the county share of cost. Testimony from the California Association of Public Hospitals and Health Systems echoed the County's concerns.

The Service Employees International Union testified that they are in support of the bill if amended to address their concerns regarding affordability of the individual mandate, and that they support the five year exclusivity for the LCO to protect safety net hospitals, and including In-Home Supportive Services workers in the bill.

The Administration acknowledged that while the bill moves closer to the Governor's plan, they still have problems with the sliding scale employer fee of up to 6.5 percent, the \$2 per pack increase in the tobacco tax, and exemptions for the individual mandate. Jennifer Kent, Associate Secretary of the California Health and Human Services Agency, indicated that the Governor proposes capping the employer fee at 5.5 percent (although the bill currently contains a 4.0 percent cap), leasing the State Lottery for additional revenue, and mandating that all Californians have health insurance.

Opposition was expressed by the California Nurses Association, which only supports universal health care, and businesses, including the California Restaurant Association and life and health insurance companies. Businesses oppose the employer mandate and life and health insurance companies have concerns with the guaranteed coverage issue.

Status of Health Care Reform Legislation

There are two key proposals in the Special Session on Health Care Reform which were both amended on November 8, 2007: **ABX1 1 (Nuñez, Perata)**, the Democrats' revised version of their health care reform proposal, which now contains some of the elements of the Governor's proposal, and **ABX1 2**, the Governor's health care reform proposal, which does not yet have an author.

A brief summary of the major elements of the two key health care reform bills follows:

ABX1 1 (Nuñez, Perata)

Individual Mandate. The proposal now includes an individual mandate for all Californians to obtain health care coverage, with exemptions for individuals who cannot afford to purchase health insurance.

Affordability. Affordability is defined as a total share of cost of 6.5 percent or less of family income for a minimum mandated policy.

Guaranteed Coverage. The bill expresses the intent to guarantee the availability and renewability of health coverage through the private health insurance market, and to require that health care service plans and health insurers issuing coverage in the individual market compete on the basis of price, quality, and service, and not on risk selection. Details would be determined by the Insurance Commissioner and the Director of the Department of Managed Health Care.

Financing. The funding mechanism for the new proposal is anticipated to be on the November 2008 election ballot.

- County Share of Cost. Establishes a County Share of Cost concept that assumes counties will spend less to serve the uninsured because most of these individuals will be covered through some form of health insurance.
- Provider Fee. Requires a 4.0 percent fee on hospital revenues.
- Employer Fee. Assesses a fee on employers not expending an equivalent amount for health care expenditures at a rate ranging from 2.0 to 6.5 percent of total payroll, based on social security wages.

Speaker Nuñez indicated that the employer fee would be based on a sliding scale that would require: 1) firms with payrolls of up to \$100,000 annually to contribute 2.0 percent, firms with payrolls greater than \$100,000 and up to \$250,000 annually to contribute 4.0 percent, and 3) firms with payrolls above \$250,000 annually to contribute 6.5 percent.

- Tobacco Tax. Proposes a \$2 per pack increase in the tobacco tax, estimated to generate net revenue of \$1.7 billion.
- No Increase in State Sales Tax. Does not propose an increase in the State's sales tax.

Full Cost Reimbursement. The proposal does not indicate an intent to provide full cost reimbursement for public hospitals for in-patient and out-patient services.

Local Coverage Option. A Local Coverage Option would provide services to single, childless adults, with incomes below 100 percent of the Federal poverty to help provide a stable base of patients for public hospitals for a transition period of three years, which may be extended an additional two years if the program is determined to be successful. The bill would specify that coverage under the program would be provided at a county's option and only by a county that operates a designated public hospital.

Safety Net Care Pool Payments. The proposal does not specifically address payment for non-hospital based clinic services and physician services for the uninsured.

Rate Increases. Physician Medi-Cal providers and physician groups would receive rate increases which would be subject to Federal approval and the availability of a State appropriation. These rate increases may be linked to performance measures. The bill does not specifically address public hospital rate increases, but states the intent of the Legislature that Medi-Cal program rates paid for inpatient and outpatient hospital services be increased.

Minimum Benefit. A minimum benefits package suitable for coverage in California would be established by the Managed Risk Medical Insurance Board.

The County as an employer could be affected depending on the minimum benefit level and the definition of employees that must be covered under the health care reform proposal. It is unclear if the County would be required to provide health insurance to student workers and employees working less than 20 hours per week. In addition, to the extent that various wellness programs included as part of health care reform lead to a healthier workforce, more favorable premium rates could result. In-Home Supportive Services providers are not addressed in the bill.

ABX1 2 (No Author)

Individual Mandate. The Governor's proposal requires that all Californians obtain coverage. The enforcement mechanism for the individual mandate is not defined and would be determined by the development of implementing regulation.

Affordability. The plan provides subsidies for low and moderate income individuals and families for coverage in the State subsidized pool, limits premiums based on income, and creates a tax credit for individuals and families between 250 percent and 350 percent of the Federal poverty level. It requires employers to offer employees IRS Code Section 125 cafeteria plans, which allows companies to give their employees the opportunity to pay for benefits on a pretax basis.

Guaranteed Coverage. The plan requires guaranteed coverage, regardless of medical history or age, phasing in elimination of these medical rating elements. It would limit what insurers can charge above or below a standard rate.

Financing. The proposal indicates the intent to finance the reform through contributions from employers, individuals, Federal, State, and county governments, and health care providers. This plan will be contained in a ballot initiative targeted for the November 2008 election. Financing elements include:

- County Share of Cost. Counties would be assessed a share of cost which is not yet defined.
- Provider Fee. Public and private hospitals would be charged a fee of 4.0 percent of patient revenues. Doctors are not required to pay a fee.
- Employer Fee. Employers who do not offer health care coverage would be charged a sliding scale fee from 0 to 4.0 percent based on their total payroll.
- Lease of California Lottery. The plan proposes to collect a projected \$2.0 billion annually from leasing the California Lottery.
- No Increase in State Sales Tax. The Governor does not propose an increase in the State's sales tax.

Full Cost Reimbursement. The Governor's proposal indicates an intent to provide public hospitals with full cost reimbursement for both in-patient and out-patient services and through managed care rate increases.

Local Coverage Option (LCO). The proposal creates the Local Coverage Option Program over a three-year transition period to help provide a stable base of patients for public hospitals. It would authorize the Director of the Department of Health Care Services to contract with counties to provide a benchmark package of benefits to county residents who have a family income at or below 100 percent of the Federal poverty level, subject to Federal financial participation and approval.

Safety Net Care Pool Payments. The Governor's proposal includes a maximum of \$100 million Statewide to pay for the non-hospital based clinics services and physician services for the uninsured.

Rate Increases. According to the Governor's press release, public hospitals would receive an additional \$500 million above the original proposal. The proposal contains no details on the assumptions and calculations supporting the \$500 million figure.

Physician Medi-Cal providers or provider groups also would receive rate increases which would be subject to Federal approval and the availability of a State appropriation. The physician rate increases also may be linked to performance measures.

Minimum Benefit. The proposal directs the Secretary of Health and Human Services to establish the minimum health insurance benefit level through the regulatory process. It requires that the minimum level must cover medical, hospital, preventive and prescription drug services; promote access to care; and be affordable. Once established, it can only be changed by the Legislature.

Each Supervisor
November 15, 2007
Page 6

The County as an employer could be affected depending on the minimum benefit level and the definition of employees that must be covered under the health care reform proposal. In addition, to the extent that various wellness programs included as part of health care reform lead to a healthier workforce, more favorable premium rates could result. In-Home Supportive Services providers are not addressed in the bill.

We are continuing to work with representatives of the Administration and the legislative leadership, California State Association of Counties, California Association of Public Hospitals and others to resolve the County's main concerns and subsequently to pursue necessary legislative amendments.

WTF:GK
MAL:MS:acn

c: All Department Heads
Legislative Strategist
Local 721
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations
Buddy Program Participants